



Consolidated Financial Statements  
August 31, 2010 and 2009

# Glacial Lakes Corn Processors

Consolidated Financial Statements

|   |   |
|---|---|
| Independent Auditor's Report.....                     | 1 |
| Consolidated Balance Sheets .....                     | 2 |
| Consolidated Statements of Operations .....           | 3 |
| Consolidated Statements of Stockholders' Equity ..... | 4 |
| Consolidated Statements of Cash Flows .....           | 5 |
| Notes to Consolidated Financial Statements .....      | 6 |

Supplementary Information

|  |    |
|--|----|
| Independent Auditor's Report on Supplementary Information..... | 35 |
| Consolidating Balance Sheet.....                               | 36 |
| Consolidating Statement of Operations .....                    | 37 |



CPAs & BUSINESS ADVISORS

## Independent Auditor's Report

The Board of Directors  
Glacial Lakes Corn Processors  
Watertown, South Dakota

We have audited the accompanying consolidated balance sheet of Glacial Lakes Corn Processors (the Cooperative) as of August 31, 2010, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of Glacial Lakes Corn Processors as of August 31, 2009, were audited by other auditors whose report, dated December 15, 2009, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provided a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Glacial Lakes Corn Processors as of August 31, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Minneapolis, Minnesota  
November 15, 2010

(This page left blank intentionally.)

|   | <u>2010</u>           | <u>2009</u>           |
|---|-----------------------|-----------------------|
| Assets  |                       |                       |
| Current Assets  |                       |                       |
| Cash and cash equivalents   | \$ 42,677,405         | \$ 27,441,880         |
| Restricted cash   | 8,320                 | 3,561,529             |
| Receivables   | 18,908,608            | 14,718,020            |
| Inventories   | 15,818,303            | 9,775,310             |
| Margin deposits   | 2,000,236             | -                     |
| Prepaid expenses  | 1,738,549             | 1,307,040             |
| Total current assets  | <u>81,151,421</u>     | <u>56,803,779</u>     |
| Investments in unconsolidated affiliates  | 10,844,328            | 10,237,399            |
| Debt issuance costs, net of accumulated amortization of \$1,470,399<br>and \$931,848 in 2010 and 2009, respectively | 1,157,327             | 1,437,105             |
| Other assets  | 15,000                | 15,000                |
| Property and equipment, net   | <u>196,794,964</u>    | <u>217,857,362</u>    |
| Total Assets  | <u>\$ 289,963,040</u> | <u>\$ 286,350,645</u> |

See Notes to Consolidated Financial Statements

Glacial Lakes Corn Processors  
Consolidated Balance Sheets  
August 31, 2010 and 2009

|   | 2010           | 2009           |
|---|----------------|----------------|
| Liabilities and Stockholders' Equity  |                |                |
| Current Liabilities   |                |                |
| Current maturities of long-term debt  | \$ 17,707,979  | \$ 16,921,599  |
| Current maturities of interest rate swaps   | 490,159        | -              |
| Derivative financial instruments  | 950,801        | -              |
| Revolving line of credit  | -              | 7,120,000      |
| Accounts payable  | 9,054,482      | 6,962,787      |
| Accrued loss on forward purchase contracts  | -              | 1,220,000      |
| Prepaid unit retain payable   | 11,133,189     | -              |
| Accrued expenses  | 5,100,328      | 5,198,837      |
| Total current liabilities   | 44,436,938     | 37,423,223     |
| Long-Term Liabilities   |                |                |
| Long-term debt, less current maturities   | 116,624,370    | 143,948,192    |
| Interest rate swaps, less current maturities  | 8,662,580      | 9,566,286      |
| Deferred income taxes   | 2,040,700      | 1,602,426      |
| Other   | 886,920        | 551,362        |
| Total long-term liabilities   | 128,214,570    | 155,668,266    |
| Total Liabilities   | 172,651,508    | 193,091,489    |
| Stockholders' Equity  |                |                |
| Preferred stock, \$1.00 par value; authorized 1,000,000 shares;<br>no shares issued and outstanding   | -              | -              |
| Common stock: \$0.00056 par value; authorized 500,000,000 shares<br>185,714,152 and 185,553,152 shares issued and outstanding<br>in 2010 and 2009, respectively | 103,164        | 103,075        |
| Additional paid-in capital  | 113,503,584    | 113,182,575    |
| Prepaid unit retain and certificates of interest  | 1,262,166      | 12,395,355     |
| Unallocated capital reserve   | (3,811,786)    | (55,376,037)   |
| Allocated capital reserve   | 6,254,404      | 22,954,188     |
| Total Stockholders' Equity  | 117,311,532    | 93,259,156     |
| Total Liabilities and Stockholders' Equity  | \$ 289,963,040 | \$ 286,350,645 |

|   | 2010                 | 2009                   |
|---|----------------------|------------------------|
| Revenue   |                      |                        |
| Product sales   | \$ 391,812,720       | \$ 340,035,011         |
| Service revenue   | 121,513              | 512,654                |
| Government incentive revenue                                    | 674,010              | 666,667                |
| Total revenue   | <u>392,608,243</u>   | <u>341,214,332</u>     |
| Costs of Goods Sold   | <u>341,099,529</u>   | <u>397,615,154</u>     |
| Gross Profit (Loss)   | 51,508,714           | (56,400,822)           |
| General and Administrative Expenses                             | <u>6,733,461</u>     | <u>8,436,293</u>       |
| Operating Income (Loss)   | <u>44,775,253</u>    | <u>(64,837,115)</u>    |
| Other Income (Expense)  |                      |                        |
| Interest expense  | (10,855,126)         | (16,674,534)           |
| Interest income   | 94,712               | 224,845                |
| Equity in earnings (loss) of<br>unconsolidated affiliates       | 1,285,679            | (2,071,100)            |
| Loss on sale of membership units of affiliate                   | -                    | (1,500,402)            |
| Other income, net   | <u>37,443</u>        | <u>31,585</u>          |
| Total other income (expense)                                    | <u>(9,437,292)</u>   | <u>(19,989,606)</u>    |
| Income (Loss) from Continuing Operations<br>Before Income Taxes | 35,337,961           | (84,826,721)           |
| Income Tax (Expense) Benefit                                    | <u>(473,494)</u>     | <u>1,062,329</u>       |
| Net Income (Loss) from Continuing Operations                    | 34,864,467           | (83,764,392)           |
| Income from Discontinued Operations                             | <u>-</u>             | <u>2,246,579</u>       |
| Net Income (Loss)   | <u>\$ 34,864,467</u> | <u>\$ (81,517,813)</u> |

See Notes to Consolidated Financial Statements

Glacial Lakes Corn Processors  
Consolidated Statements of Operations  
Years Ended August 31, 2010 and 2009

---

|  | 2010          | 2009            |
|--|---------------|-----------------|
| Distribution of Net Income (Loss)          |               |                 |
| Unallocated capital reserve                | \$ 34,864,467 | \$ (81,517,813) |
| Net Income (Loss)                          | \$ 34,864,467 | \$ (81,517,813) |
| Earnings (Loss) from Continuing Operations |               |                 |
| Per Common Share                           |               |                 |
| Basic                                      | \$ 0.188      | \$ (0.449)      |
| Diluted                                    | 0.188         | (0.449)         |
| Earnings (Loss) per Common Share           |               |                 |
| Basic                                      | \$ 0.188      | \$ (0.437)      |
| Diluted                                    | 0.188         | (0.437)         |



Glacial Lakes Corn Processors  
Consolidated Statements of Stockholders' Equity  
Years Ended August 31, 2010 and 2009

|   | Common<br>Stock   | Additional<br>Paid-In<br>Capital | Prepaid Unit Retain<br>and Certificates<br>of Interest | Unallocated<br>Capital<br>Reserve | Allocated<br>Capital<br>Reserve | Total                 |
|---|-------------------|----------------------------------|--|-----------------------------------|---------------------------------|-----------------------|
| Balance, August 31, 2008  | \$ 104,513        | \$ 114,070,793                   | \$ -   | \$ 26,141,776                     | \$ 22,954,188                   | \$ 163,271,270        |
| Net loss  | -                 | -                                | -  | (81,517,813)                      | -                               | (81,517,813)          |
| Prepaid unit retain capital call  | -                 | -                                | 11,133,189   | -                                 | -                               | 11,133,189            |
| Certificates of interest issued   | (1,572)           | (1,260,594)                      | 1,262,166  | -                                 | -                               | -                     |
| Stock-based compensation,<br>including 300,000 shares issued                | 167               | 382,963                          | -  | -                                 | -                               | 383,130               |
| Stock repurchased under stock<br>plan for tax withholding,<br>59,000 shares | (33)              | (10,587)                         | -  | -                                 | -                               | (10,620)              |
| Balance, August 31, 2009  | 103,075           | 113,182,575                      | 12,395,355   | (55,376,037)                      | 22,954,188                      | 93,259,156            |
| Net income  | -                 | -                                | -  | 34,864,467                        | -                               | 34,864,467            |
| Prepaid unit retain capital<br>call payable                                 | -                 | -                                | (11,133,189)   | -                                 | -                               | (11,133,189)          |
| Allocation of a portion of<br>patronage loss                                | -                 | -                                | -  | 16,699,784                        | (16,699,784)                    | -                     |
| Stock-based compensation,<br>including 190,000 shares issued                | 105               | 329,693                          | -  | -                                 | -                               | 329,798               |
| Stock repurchased under stock<br>plan for tax withholding,<br>29,000 shares | (16)              | (8,684)                          | -  | -                                 | -                               | (8,700)               |
| Balance, August 31, 2010  | <u>\$ 103,164</u> | <u>\$ 113,503,584</u>            | <u>\$ 1,262,166</u>                                    | <u>\$ (3,811,786)</u>             | <u>\$ 6,254,404</u>             | <u>\$ 117,311,532</u> |

|  | <u>2010</u>        | <u>2009</u>        |
|--|--------------------|--------------------|
| Operating Activities   |                    |                    |
| Net income (loss)  | \$ 34,864,467      | \$ (81,517,813)    |
| Adjustments to reconcile net income to net cash from (used for) operating activities |                    |                    |
| Depreciation and amortization  | 27,878,648         | 29,373,686         |
| Deferred income taxes  | 438,274            | (407,074)          |
| Gain on sale of assets   | -                  | (16,399)           |
| Gain on sale of Madison Energy   | -                  | (1,595,653)        |
| Change in fair value of interest rate swaps  | (413,547)          | 4,640,470          |
| Equity in (earnings) losses of unconsolidated affiliates                             | (1,285,679)        | 2,071,100          |
| Loss on sale of units of unconsolidated affiliate                                    | -                  | 1,500,402          |
| Stock-based compensation   | 329,797            | 383,130            |
| Changes in assets and liabilities  |                    |                    |
| Receivables  | (4,190,588)        | 18,971,893         |
| Inventories  | (6,042,993)        | 5,957,534          |
| Margin deposits  | (2,000,236)        | -                  |
| Prepaid expenses   | (431,509)          | 107,312            |
| Derivative financial instruments   | 950,801            | 25,399,067         |
| Accounts payable   | 1,767,293          | (7,994,085)        |
| Accrued expenses and other   | 237,049            | 1,785,381          |
| Accrued loss on forward purchase contracts   | (1,220,000)        | (4,489,011)        |
| Net Cash from (used for) Operating Activities  | <u>50,881,777</u>  | <u>(5,830,060)</u> |
| Investing Activities   |                    |                    |
| Purchases of property and equipment  | (5,953,297)        | (6,466,244)        |
| Proceeds from sale of property and equipment   | -                  | 24,378             |
| Decrease in restricted cash  | 3,553,209          | 4,503,992          |
| Proceeds from sale of Madison Energy   | -                  | 1,000,816          |
| Dividends from unconsolidated affiliates   | 678,750            | -                  |
| Proceeds from sale of units of unconsolidated affiliate                              | -                  | 2,000,000          |
| Net Cash (used for) from Investing Activities  | <u>(1,721,338)</u> | <u>1,062,942</u>   |

See Notes to Consolidated Financial Statements

Glacial Lakes Corn Processors  
Consolidated Statements of Cash Flows  
Years Ended August 31, 2010 and 2009

|   | 2010          | 2009          |
|---|---------------|---------------|
| Financing Activities                                    |               |               |
| Proceeds from revolving lines of credit                 |               | 14,220,000    |
| Payments on revolving lines of credit                   | (7,120,000)   | (17,000,000)  |
| Proceeds from long-term debt                            | 2,430,000     | 9,786,275     |
| Payments on long-term debt                              | (28,967,442)  | (11,212,648)  |
| Debt issuance cost paid                                 | (258,772)     | (239,951)     |
| Decrease in checks in excess<br>of bank balance         | -             | (869,501)     |
| Member contributions                                    | (8,700)       | 11,133,189    |
|   | (33,924,914)  | 5,817,364     |
| Net Cash from (used for) Financing Activities           |               |               |
| Net Change in Cash and Cash Equivalents                 | 15,235,525    | 1,050,246     |
| Cash and Cash Equivalents, Beginning of Year            | 27,441,880    | 26,391,634    |
| Cash and Cash Equivalents, End of Year                  | \$ 42,677,405 | \$ 27,441,880 |
| Supplemental Disclosure of Cash Flow Information        |               |               |
| Cash payments for                                       |               |               |
| Interest  | \$ 10,865,549 | \$ 12,092,321 |
| Income taxes  | 35,000        | -             |
| Supplemental Schedule of Non Cash                       |               |               |
| Investing Activities                                    |               |               |
| Accounts payable incurred for<br>property and equipment | 324,402       | -             |
| Subordinated note payable issued for<br>broker payable  | -             | 3,370,008     |
| Stock repurchased for tax withholding                   | 22,117        | 10,620        |
| Supplemental Schedule of Non Cash                       |               |               |
| Financing Activities                                    |               |               |
| Prepaid unit retain capital call repayment declared     | 11,133,189    | -             |

## **Note 1 - Nature of Business and Significant Accounting Policies**

### **Nature of Business**

Glacial Lakes Corn Processors (GLCP), a cooperative located near Watertown, South Dakota, was organized in May 2001 to build and operate ethanol plants in South Dakota for commercial sales throughout the United States of America. Wholly-owned subsidiaries of GLCP are Glacial Lakes Energy, LLC (GLE), Aberdeen Energy, LLC (AE), and Missouri Valley Energy, LLC (MVE). GLE owns and operates a 110 million gallon per year ethanol plant near Watertown, South Dakota. AE owns and operates a 110 million gallon per year ethanol plant near Aberdeen, South Dakota.

### **Principles of Consolidation**

The financial statements include the accounts of GLCP and its wholly-owned subsidiaries (collectively, the Cooperative). All significant inter-company accounts and transactions have been eliminated in consolidation.

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates. Estimates significant to the financial statements include stock-based compensation, accrual for damage to leased railcars, the allowance for doubtful accounts, derivative financial instruments, deferred income taxes, useful lives of property and equipment, and impairment losses.

### **Revenue Recognition**

Revenue from product sales is recorded when the product is loaded and title transfers to the customer. Product sales are recorded net of outbound shipping costs and commissions. Service revenue is recognized as earned. Government incentive revenue is recognized in accordance with the terms of the program.

### **Expense Classification**

Cost of goods sold primarily includes raw materials, payroll for plant employees and general plant overhead charges. General and administrative expenses consist primarily of payroll for management and administrative employees and fees paid to service providers for legal, accounting and consulting services.

### **Shipping and Commission Costs**

Shipping costs for product sales are generally paid or reimbursed by the Cooperative's marketers. Shipping and commissions costs paid to the marketers are presented on a net basis in product sales on the consolidated statements of operations. Shipping costs were \$54,265,948 and \$54,382,728 and commission costs were \$3,818,613 and \$3,331,539 for the years ended August 31, 2010 and 2009, respectively.

### **Concentrations of Credit Risk**

The Cooperative performs periodic credit evaluations of its customers and generally does not require collateral. The Cooperative's operations may vary with the volatility of the markets for inputs (including corn, natural gas, chemicals and denaturant) and for the finished products (ethanol and distiller's grains).

### **Cash and Cash Equivalents**

The Cooperative considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. The Cooperative maintains its cash and cash equivalents in bank deposit accounts which exceed federally insured limits. At August 31, 2010, cash was deposited primarily in five financial institutions. The Cooperative has not experienced any losses in such accounts. The Cooperative believes it is not exposed to any significant credit risk on cash and cash equivalents.

### **Restricted Cash**

Restricted cash, which may periodically exceed federally insured limits, represents loan proceeds not used for construction costs and/or deposits into debt service reserve accounts.

### **Receivables**

Receivables are carried at original invoice amount less an allowance made for doubtful accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and using historical experience applied to an aging of receivables. Receivables are written-off when deemed uncollectible. Recoveries of receivables previously written-off are recognized when received.

### **Inventories**

All inventories, except for distiller's grains and spare parts, are stated at the lower of cost or market on the first-in, first-out method. Spare parts inventory is stated at the lower of cost or market on the weighted-average cost method. Distiller's grains are stated at net realizable value, which approximates historical cost.

### **Derivative Financial Instruments**

The Cooperative enters into forward purchase and sales contracts for corn, natural gas, denaturant and distiller's grain, which meet the definition of a derivative under accounting standards but qualify for the normal purchase, normal sale exception to fair value accounting. These contracts provide for the purchase or sale of commodities in quantities that are expected to be used or sold over a reasonable period of time in the normal course of operations. These contracts are not marked to market in the financial statements. In circumstances where management estimates that cash contract values from purchased corn cannot be recovered through the sale of ethanol, a loss is recorded on the contract. Such losses are included in cost of goods sold and accrued loss on forward purchase contracts.

Exchange-traded futures contracts are marked to market as derivative financial instruments on the consolidated balance sheets. Changes in fair value are included in product sales or cost of goods sold on the consolidated statements of operations consistent with the commodity being hedged.

### **Interest Rate Swap Agreements**

Fair value of the Cooperative's interest rate swap agreements are recognized as either an asset or liability in the consolidated balance sheets, with changes in fair value reported in interest expense in the consolidated statements of operations.

### **Investments in Unconsolidated Affiliates**

The Cooperative accounts for its investments in Granite Falls Energy, LLC (GFE) and Redfield Energy, LLC (RE) using the equity method of accounting under which the Cooperative's respective share of the net income (loss) of the unconsolidated affiliates is recognized as equity in earnings (loss) of unconsolidated affiliates on the consolidated statements of operations and the net income (loss), less any distributions received, is added to (subtracted from) the investment accounts.

### **Property and Equipment**

Property and equipment is stated at cost. Depreciation is computed by the straight-line method over the estimated useful lives as follows:

|                                      |               |
|--------------------------------------|---------------|
| Land improvements                    | 15 - 20 years |
| Buildings                            | 20 - 30 years |
| Railroad equipment and rolling stock | 5 - 20 years  |
| Machinery and equipment              | 7 - 30 years  |
| Office equipment                     | 3 - 7 years   |

Construction in progress is depreciated when construction is complete and the property and equipment is placed into service. Repairs and maintenance costs are expensed as incurred and significant improvements are capitalized.

### **Long-Lived Assets**

The Cooperative reviews long-lived assets used in operations for impairment when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. In such cases, an impairment loss is recognized for the excess of the carrying value of the asset over its fair value.

### **Debt Issuance Costs**

Debt issuance costs are amortized over the term of the related debt instrument by a method that approximates the effective interest method.

### **Stock-Based Compensation**

Costs of employee share-based payments are measured at fair value on the award's grant date and recognized in the financial statements over the requisite service period on a straight-line basis.

## **Income Taxes**

The Cooperative is a non-exempt cooperative association subject to federal income tax on non-patronage income and patronage income not allocated to members. The Cooperative is permitted to deduct the portion of patronage income allocated to the members in the form of cash dividends and qualified written notice of allocations from taxable income. The Cooperative allocates its patronage income on the tax basis. Deferred income taxes are recorded on the consolidated balance sheets for basis differences related to non-patronage income from the Cooperative's investments in unconsolidated affiliates. The deferred tax liability represents the future tax return consequences of those differences. The Cooperative uses accelerated depreciation methods for income tax purposes, which causes taxable income to be different than net income for financial reporting purposes. Taxable income is also different than net income on the consolidated statements of operations for differences related to derivative financial instruments, interest rate swaps, stock-based compensation and certain recorded losses. No deferred income taxes are recognized on these differences.

The Cooperative adopted the provisions of ASC 740-10-25 (formerly FIN No. 48, *Accounting for Uncertainty in Income Taxes*), on September 1, 2009. As a result of the adoption, no liability for unrecognized tax benefits was recorded.

The Cooperative recognizes interest and penalties related to unrecognized tax benefits in its provision for income taxes. During the years ended August 31, 2010 and 2009, there were no amounts recognized for interest or penalties related to unrecognized tax benefits.

## **Earnings (Loss) per Common Share (EPS)**

Basic EPS is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that would occur, using the treasury stock method, if securities or other obligations to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that shared in the Cooperative's earnings, unless such effects are antidilutive.

## **Fair Value**

The carrying amounts for cash and cash equivalents, receivables, accounts payable, accrued loss on forward purchase contracts, and accrued expenses approximate fair value. Fair values for derivative financial instruments are determined based on quoted market prices. Fair values of interest rate swap agreements are obtained from the counterparty, who computes the values based upon nominal and current interest rates and interest yield curves. Derivative financial instruments and interest rate swap agreements are recorded at fair value on the accompanying consolidated balance sheets. The Cooperative does not consider it practicable to estimate the fair value of its revolving lines of credit, long-term debt or subordinated note payable due to the unique nature of the obligations.

## **Advertising Costs**

Advertising and promotion costs are expensed when incurred and totaled \$64,557 and \$35,505 for the years ending August 31, 2010 and 2009, respectively.

**Note 2 - Receivables**

The following table summarizes receivables as of August 31, 2010 and 2009:

|                                      | <u>2010</u>          | <u>2009</u>          |
|--------------------------------------|----------------------|----------------------|
| Trade                                | \$ 18,124,024        | \$ 13,552,996        |
| Government programs                  | 166,667              | 166,667              |
| Income taxes                         | -                    | 456,692              |
| Other                                | 822,940              | 804,777              |
|                                      | <u>19,113,631</u>    | <u>14,981,132</u>    |
| Less allowance for doubtful accounts | <u>205,023</u>       | <u>263,112</u>       |
|                                      | <u>\$ 18,908,608</u> | <u>\$ 14,718,020</u> |

**Note 3 - Inventories**

The following table summarizes inventories as of August 31, 2010 and 2009:

|                                | <u>2010</u>          | <u>2009</u>         |
|--------------------------------|----------------------|---------------------|
| Grain                          | \$ 8,272,858         | \$ 2,811,227        |
| Ethanol and distiller's grains |                      |                     |
| Finished goods                 | 2,356,195            | 2,325,841           |
| In process                     | 3,016,091            | 2,565,788           |
| Chemicals and ingredients      | 705,797              | 893,479             |
| Spare parts                    | 1,467,362            | 1,178,975           |
|                                | <u>\$ 15,818,303</u> | <u>\$ 9,775,310</u> |

**Note 4 - Property and Equipment**

The following table summarizes property and equipment as of August 31, 2010 and 2009:

|                                      | <u>2010</u>           | <u>2009</u>           |
|--------------------------------------|-----------------------|-----------------------|
| Land and land improvements           | \$ 9,072,549          | \$ 8,591,653          |
| Buildings                            | 29,918,517            | 29,888,959            |
| Railroad equipment and rolling stock | 11,458,867            | 11,372,959            |
| Machinery and equipment              | 239,746,255           | 236,415,384           |
| Office equipment                     | 886,498               | 592,281               |
| Construction in progress             | 2,189,378             | 146,571               |
|                                      | <u>293,272,064</u>    | <u>287,007,807</u>    |
| Less accumulated depreciation        | <u>96,477,100</u>     | <u>69,150,445</u>     |
|                                      | <u>\$ 196,794,964</u> | <u>\$ 217,857,362</u> |



Depreciation expense for the years ended August 31, 2010 and 2009 was \$27,340,097 and \$28,901,613, respectively.

**Note 5 - Debt Issuance Costs**

Amortization of debt issuance costs was \$538,551, and \$470,565 during the years ended August 31, 2010 and 2009, respectively. Future amortization of debt issuance costs is as follows:

| Years Ended August 31, |    |           |
|------------------------|----|-----------|
| 2011                   | \$ | 562,832   |
| 2012                   |    | 562,832   |
| 2013                   |    | 31,663    |
|                        | \$ | 1,157,327 |

**Note 6 - Revolving Line of Credit, Long-Term Debt and Subordinated Note Payable**

The following table summarizes the outstanding balances on revolving lines of credit as August 31, 2010 and 2009:

|     | 2010 | 2009         |
|-----|------|--------------|
| GLE | \$ - | \$ -         |
| AE  | -    | 7,120,000    |
|     | \$ - | \$ 7,120,000 |

Under the loan agreement with a group of lenders administered by First National Bank of Omaha (the Bank), GLE and AE each has a revolving line of credit. Each revolving line of credit matures on July 15, 2011. The revolving lines of credit bear an interest rate at 6.50% above the 1-month LIBOR (7% floor rate at August 31, 2010) and 3.25% above the 1-month LIBOR (3.53% at August 31, 2009). Amounts available under the revolving lines of credit were \$4,367,661 and \$10,000,000 each, respectively, as of August 31, 2010 and August 31, 2009, subject to a borrowing base, calculated as a percentage of eligible receivables, certain inventory categories (less related payables) and hedging account balances.

On October 3, 2008, the Bank suspended any availability under the revolving lines of credit based on the level of losses from hedging activities in September and October 2008. At that time, the amount outstanding on the revolving lines of credit on that date (\$7,120,000 for AE) exceeded its borrowing base. On December 3, 2008, the Cooperative, GLE and AE signed the Second Amendment to the loan agreement which continued the suspension of availability under the revolving lines of credit and increased the interest rate by 0.25%. While the combined balance outstanding on the revolving lines of credit exceeded the combined borrowing bases at various times during the year ended August 31, 2009, the combined borrowing bases for GLE and AE on August 31, 2009 exceeded the combined balance outstanding on the revolving lines of credit.

Glacial Lakes Corn Processors  
Notes to Consolidated Financial Statements  
August 31, 2010 and 2009

On September 29, 2009, the Cooperative, GLE and AE signed the Fourth Amendment to the loan agreement that extended the maturity date on the revolving lines of credit to October 17, 2009, continued the suspension of availability under the revolving lines of credit and increased the interest rate to 6.50% above the 3 month LIBOR (with a floor of 7.00%). On December 15, 2009, the Cooperative, GLE and AE signed the Sixth Amendment to the loan agreement approving the extension of the revolving lines of credit to July 17, 2010 with the maximum amount available of \$3,560,000 each for GLE and AE. The Sixth Amendment also stated that the unused fee on the revolving lines of credit will go to 0.50% from 0.375% and hedging account balances would be removed from the borrowing base calculation. On August 11, 2010, the Cooperative, GLE and AE signed the Seventh Amendment to the loan agreement approving the extension of the revolving lines of credit to July 15, 2011.

The following table summarizes long-term debt as of August 31, 2010 and 2009:

|   | <u>2010</u>           | <u>2009</u>           |
|---|-----------------------|-----------------------|
| GLE   |                       |                       |
| Variable note   | \$ 28,791,845         | \$ 42,196,790         |
| Swap note   | 26,959,165            | 29,317,794            |
| Equipment loan, due in monthly installments of \$3,285<br>matured March 2010, collateralized by related equipment   | -                     | 22,998                |
|   | <u>55,751,010</u>     | <u>71,537,582</u>     |
| AE  |                       |                       |
| Variable note   | 40,643,745            | 50,946,530            |
| Swap note   | 32,338,062            | 34,827,743            |
| Equipment loan, due in monthly installments of \$9,750<br>including interest at 4.25%, matures<br>April 2011, collateralized by related equipment                               | 76,899                | 187,928               |
| Economic development loan, due in monthly installments<br>of \$22,929 including interest at 5.0%, matures October 2014<br>collateralized by ethanol producer incentive payments | 1,032,906             | -                     |
| Economic development loan, due in monthly installments<br>of \$21,835 including interest at 3.0%, matures March 2015<br>collateralized by ethanol producer incentive payments   | 1,119,719             | -                     |
|   | <u>75,211,331</u>     | <u>85,962,201</u>     |
| GLE and AE, jointly and severally<br>Subordinated note payable  | 3,370,008             | 3,370,008             |
|   | <u>134,332,349</u>    | <u>160,869,791</u>    |
| Less current maturities   | <u>17,707,979</u>     | <u>16,921,599</u>     |
|   | <u>\$ 116,624,370</u> | <u>\$ 143,948,192</u> |

Upon successful completion of the projects, the construction loans were converted into variable-rate term loans with a 5-year maturity (March 31, 2013 for GLE and January 20, 2014 for AE). The term loans consist of a swap note and a variable note. For GLE at conversion in March 2008, the variable note had a balance of \$48,000,000 and the swap note had a balance of \$32,000,000. For AE at conversion in January 2009, the variable note had a maximum balance of \$54,000,000 and the swap note had a balance of \$36,000,000. Under the variable notes, fixed quarterly payments of \$1,791,816 and \$2,015,792 are due for GLE and AE, respectively, with amounts allocated to accrued interest first and then to principal reduction. Under the swap notes, variable quarterly principal payments (based on ten-year amortization) plus accrued interest are due.

The variable notes bear an interest rate of 6.50% above the 3-month LIBOR with a floor of 7.00% (7.00% at August 31, 2010) and the swap notes bear an interest rate of 3.05% to 3.25% above the 3-month LIBOR (3.59% to 3.79% at August 31, 2010). The variable notes bear an interest rate of 3.25% above the 3-month LIBOR (3.85% at August 31, 2009) and the swap notes bear an interest rate of 3.05% above the 3-month LIBOR (3.65% at August 31, 2009).

In connection with the conversion of the GLE and AE construction loans to term loans in March 2008 and January 2009, respectively, GLE and AE borrowed up to the full \$80,000,000 and \$90,000,000 available, respectively, and deposited the excess amounts into escrow accounts held by the Bank.

On December 3, 2008, the Cooperative, GLE and AE signed the Second Amendment to the loan agreement with the Bank. The major provisions of the Second Amendment were as follows: (a) the Cooperative stated that it will approve a prepaid unit retain capital call of no less than \$0.06 per share to raise no less than \$11,300,000 on a best efforts basis from its shareholders (see Note 16), (b) to consent to any changes needed in the current ethanol marketing agreement to effect an increase in the net price received from the sale of ethanol, (c) the Cooperative agreed to raise additional capital on a best efforts basis in addition to the prepaid unit retain capital call, (d) the Cooperative agreed to retain a professional financial consultant and advisor acceptable to the Bank, (e) the Cooperative agreed not to establish any new hedging positions until a new risk management policy is adopted and approved in writing by the Bank, (f) the Cooperative agreed to provide a report to the Bank by an independent party on hedging activities during calendar year 2008, (g) advances on the revolving lines of credit and draw requests under the AE construction loan will only be made in strict compliance with the amended loan agreements, (h) to consent to executing the subordinated note payable of \$3,370,008 with FCStone (any default of the subordinated note shall be a default of this loan agreement, see below), (i) to consent to the sale of the Madison Elevator and the sale of 2,000 units of GFE ownership (see Notes 13 and 17), (j) to allow the Cooperative to use \$1,000,000 from the sale of the ME elevator and to use \$2,000,000 from the sale of GFE units as working capital (k) to consent to the release of \$5,000,000 from the GLE construction escrow account to be used as working capital to match amounts raised by the Cooperative's prepaid unit retain capital call, and (l) to transfer the remaining \$3,000,000 balance of the GLE construction escrow account to a debt service reserve account controlled by the Bank. In consideration for the Second Amendment, the Cooperative paid an administration fee to the Bank of \$212,500 (0.00125 of the total commitment) and the interest rate on the revolving line of credit and the term loans was increased by 0.25%.

On October 30, 2009, the Cooperative, GLE and AE signed the Fifth Amendment to the loan agreement with the Bank which consented to the indebtedness to be incurred related to the corn dryer and related grain handling equipment for the AE plant of \$2,430,000.

On December 15, 2009, the Cooperative, GLE and AE signed the Sixth Amendment to the loan agreement with the Bank approving (a) new swap notes to match the nominal amounts of the interest rate swaps entered into during June 2008 and (b) a new long-term revolver (LTR) note of \$3,000,000 each for GLE and AE. The remaining balances on the new variable notes and the balances on the LTR notes will have the interest rate increased to 3-month LIBOR plus 6.50% (with a floor of 7.00%). The fixed quarterly payments required under the old variable notes will be allocated to (a) principal and interest due under the new swap notes, (b) accrued interest on the new variable notes and the LTR notes and (c) principal reduction on the new variable notes and the LTR notes.

### **Covenants and Requirements of Loan Agreement**

The loan agreement (as amended) and related documents contain (i) a number of covenants restricting excess cash and cash distributions to shareholders, (ii) other requirements such as sufficient property and liability insurance coverage, minimum working capital levels, and minimum tangible net worth and (iii) maintenance of certain financial ratios including a historical fixed charges coverage ratio and a total debt-to-tangible net worth ratio. The loan agreement requires additional principal payments under the variable notes be made quarterly by GLE and/or AE based on 25% of their “excess cash flow,” as defined in the loan agreement.

The loan agreement required GLE and AE each to fund a debt service reserve account to be a source for payment of principal and interest in case either entity is not able to make its scheduled quarterly payments. The amounts to be funded into the debt service reserve accounts were originally at \$3,000,000 for GLE and \$3,300,000 for AE. Under the Third Amendment to the loan agreement signed on December 3, 2008, approximately \$3,000,000 received from full funding the construction loan prior to the conversion into the term loans was deposited into the debt service reserve account of GLE and is included in restricted cash in the consolidated balance sheet. In the Sixth Amendment to the loan agreement signed on December 15, 2009, GLE and AE paid down on the outstanding balance of the LTR notes with the respective debt service accounts. Once the LTR notes are paid in full, GLE and AE may borrow on the LTR notes to make its scheduled quarterly payment to the other notes.

Under the loan agreement, GLE and AE are allowed to make minimum tax distributions (up to 40% of financial-basis income) to GLCP so that they can be passed on to shareholders to pay income taxes on patronage income allocated to them. In order to pay additional distributions to shareholders, GLE and AE are required to (a) fully fund the respective debt service reserve accounts (pay down the LTR notes to \$0 with the Sixth Amendment to the loan agreement), (b) pay down the term loans to the “targeted balance” (based on seven-year loan amortization) and (c) show compliance with all financial covenants after the proposed distribution.

At various times during 2009, GLE and AE were not in compliance with the following covenants: minimum tangible net worth (GLE and AE), the historical fixed charges coverage ratio (GLE and AE), the total debt-to-tangible net worth ratio (GLE) and minimum working capital (AE). On December 15, 2009, the Cooperative, GLE and AE signed the Sixth Amendment to the loan agreement with the Bank approving the following items related to covenants: (a) waive financial covenant violations during the fiscal year ended August 31, 2009 and through October 31, 2009, (b) modify the covenants for minimum working capital levels, minimum tangible net worth, historical fixed charges coverage ratio and historical debt to tangible net worth ratio during the fiscal year ending August 31, 2010, (c) return to previous financial covenants for periods after September 1, 2010, and (d) require lender approval for any distributions above those required for the allocation of taxable patronage income to shareholders while there is a balance outstanding on the LTR notes and the “targeted balances” are not met. In consideration for the Sixth Amendment to the loan agreement, the Cooperative paid an administrative fee of \$240,548 (0.15% of the current commitment). The Cooperative, GLE, and AE were in compliance with all applicable covenants as of August 31, 2010.

### Future Principal Payments

Maturities of long-term debt as of August 31, 2010 are estimated as follows (based on compliance with the modified financial covenants in the Sixth Amendment to the loan agreement):

| <u>Years Ended August 31,</u> | <u>GLE</u>           | <u>AE</u>            | <u>Total</u>          |
|-------------------------------|----------------------|----------------------|-----------------------|
| 2011                          | \$ 8,412,969         | \$ 9,295,010         | \$ 17,707,979         |
| 2012                          | 8,836,388            | 9,635,235            | 18,471,623            |
| 2013                          | 38,501,654           | 10,088,216           | 48,589,870            |
| 2014                          | 1,685,004            | 47,682,082           | 49,367,086            |
| 2015                          | -                    | 195,791              | 195,791               |
|                               | <u>\$ 57,436,015</u> | <u>\$ 76,896,334</u> | <u>\$ 134,332,349</u> |

### Standby Letters of Credit

Under the loan agreements, the Bank agreed to provide a facility for standby letters of credit. As of August 31, 2010 and 2009, AE has outstanding standby letters of credit of \$3,300,000 and GLE has no standby letters of credit outstanding.

### Subordinated Note Payable

As a result of the Cooperative liquidating all of its commodities futures and options positions in October 2008, the Cooperative had an unfilled margin call totaling \$3,370,008. In December 2008, the Cooperative, GLE and AE entered into a subordinated note agreement with its broker for the amount of unfilled margin call. The note is subordinated to the indebtedness owed by the Cooperative, GLE and AE under the loan agreement with the Bank. The note bears interest at an annual rate of 8.00% with scheduled monthly interest payments subject to the terms of the related subordination agreement. At August 31, 2010 and 2009, the balance outstanding on the subordinated note is \$3,370,008. The subordinated note has a stated maturity date of December 2, 2009. However, under the terms of the subordinated note, unless all amounts owing under the loan agreement with the Bank have been indefeasibly paid in full, no principal payment, whether as a prepayment or upon the stated maturity date, shall be due under the subordinated note unless and until the Bank and all of the other senior lenders each consent to any such principal payment.

### Note 7 - Derivatives

#### Interest Rate Swap Agreements

The Cooperative has entered into various interest rate swap agreements with the Bank. The swap agreements were entered into to reduce the volatility of interest rates under the variable notes and the swap notes. As of August 31, 2010 and 2009, the Cooperative has entered into the following interest rate swap agreements:

|        | Maturity Date | Notional Amount | Cooperative Pays | Cooperative Receives | Fair Value            |                       |
|--------|---------------|-----------------|------------------|----------------------|-----------------------|-----------------------|
|        |               |                 |                  |                      | 2010                  | 2009                  |
| GLE    |               |                 |                  |                      |                       |                       |
| Swap 1 | 6/2011        | \$ 5,553,140    | 7.400%           | 3 month LIBOR + 3.0% | \$ (217,849)          | \$ (374,259)          |
| Swap 2 | 6/2012        | \$ 6,540,918    | 7.600%           | 3 month LIBOR + 3.0% | (490,513)             | (553,173)             |
| Swap 3 | 3/2013        | \$ 5,025,490    | 7.690%           | 3 month LIBOR + 3.0% | (480,923)             | (466,972)             |
| Swap 4 | 3/2013        | \$ 26,959,165   | 7.950%           | 3 month LIBOR + 2.8% | (2,877,890)           | (2,929,976)           |
| AE     |               |                 |                  |                      |                       |                       |
| Swap 1 | 6/2011        | \$ 6,941,427    | 7.400%           | 3 month LIBOR + 3.0% | (272,310)             | (467,823)             |
| Swap 2 | 6/2012        | \$ 8,175,771    | 7.600%           | 3 month LIBOR + 3.0% | (613,141)             | (691,464)             |
| Swap 3 | 6/2013        | \$ 6,282,346    | 7.690%           | 3 month LIBOR + 3.0% | (639,925)             | (597,559)             |
| Swap 4 | 6/2013        | \$ 31,022,718   | 7.985%           | 3 month LIBOR + 2.8% | (3,560,188)           | (3,485,060)           |
| Total  |               |                 |                  |                      | <u>\$ (9,152,739)</u> | <u>\$ (9,566,286)</u> |

The notional amounts on these swap agreements reduce on a quarterly basis in proportion to the scheduled principal reduction under the notes for the respective time periods. The swap agreements require settlement payments to be made or received quarterly.

**Financial Instruments**

The Cooperative has entered into short-term exchange-traded contracts as a means of managing exposure to changes in commodity prices. As of August 31, 2010 and 2009, the Cooperative has entered into the following derivative financial instruments:

|                                   | Notional | Notional<br>Quantity | Fair Value          |             |
|-----------------------------------|----------|----------------------|---------------------|-------------|
|                                   |          |                      | 2010                | 2009        |
| GLE                               |          |                      |                     |             |
| Exchange-traded<br>corn contracts | Bushels  | 2,150,000            | \$ (563,288)        | \$ -        |
| AE                                |          |                      |                     |             |
| Exchange-traded<br>corn contracts | Bushels  | 1,400,000            | (387,513)           | -           |
| Total                             |          |                      | <u>\$ (950,801)</u> | <u>\$ -</u> |

The following table summarizes the derivative transactions reflected in the Cooperative's consolidated balance sheets and consolidated statements of operations for the years ended August 31, 2010 and 2009:

|   | 2010         | 2009         |
|---|--------------|--------------|
| Classification with Consolidated Balance Sheet                    |              |              |
| Short-term Liability  |              |              |
| Fair value of interest rate swap agreements                       | \$ (490,159) | \$ -         |
| Fair value of derivative financial instruments                    | (950,801)    | -            |
| Long-term Liability   |              |              |
| Fair value of interest rate swap agreements                       | (8,662,580)  | (9,566,286)  |
| Gain or (Loss) Recognized in Consolidated Statement of Operations |              |              |
| Cost of Goods Sold  |              |              |
| Derivative financial instruments                                  | (1,154,491)  | (44,792,131) |
| Interest Expense  |              |              |
| Interest rate swaps   | (4,237,036)  | (8,185,759)  |

**Note 8 - Fair Value Measurements**

Accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Cooperative has the ability to access.
- Level 2 - Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Liabilities measured at fair value on a recurring basis at August 31, 2010 and 2009, respectively, are as follows:

|                                  | 2010            | 2009           |
|----------------------------------|-----------------|----------------|
| Derivative financial instruments | \$ (950,801)    | \$ -           |
| Interest rate swap agreements    | (9,152,739)     | (9,566,286)    |
| Total                            | \$ (10,103,540) | \$ (9,566,286) |

The following table summarizes by level, within the fair value hierarchy, the Cooperative's liabilities that are measured at fair value on a recurring basis at August 31, 2010 and 2009:

|                                  | Level 1      | Level 2        | Level 3 | Total           |
|----------------------------------|--------------|----------------|---------|-----------------|
| August 31, 2010                  |              |                |         |                 |
| Derivative financial instruments | \$ (950,801) | \$ -           | \$ -    | \$ (950,801)    |
| Interest rate swap agreements    | -            | (9,152,739)    | -       | (9,152,739)     |
| Total                            | \$ (950,801) | \$ (9,152,739) | \$ -    | \$ (10,103,540) |
| August 31, 2009                  |              |                |         |                 |
| Interest rate swap agreements    | \$ -         | \$ (9,566,286) | \$ -    | \$ (9,566,286)  |



The derivative financial instruments consist of commodity contracts which are valued based on quoted market prices. The fair value of the interest rate swaps are based upon estimates of the related LIBOR swap rates during the term of the swap agreements.

**Note 9 - Leases**

The Cooperative leases 337 hopper and 602 tanker cars under operating lease agreements. Generally, the Cooperative is required to pay executory costs such as maintenance and insurance.

Base and contingent rent expense on the rail cars (based on the dates the cars were put into service) for the years ended August 31, 2010 and 2009 totaled \$4,952,688, and \$3,258,830, respectively. During the years ended August 31, 2010 and 2009 the Cooperative sub-leased certain of the hopper cars from other ethanol plants on a short-term basis and recorded \$59,806, and \$124,513, respectively, as an increase to rent expense.

The Cooperative is responsible for repairs and maintenance on the rail cars, as well as damages that are assessed at the end of the lease term. Accruals recorded for estimated damages as of August 31, 2010 and 2009 were \$1,192,420 and \$699,487, respectively. The portions of these accruals classified as long-term were \$886,920 and \$551,362, as of August 31, 2010 and 2009, respectively.

Minimum lease payments in the future years are as follows:

| Years Ended August 31, |               |
|------------------------|---------------|
| 2011                   | \$ 4,683,150  |
| 2012                   | 3,545,766     |
| 2013                   | 2,246,646     |
| 2014                   | 1,669,641     |
| 2015                   | 1,120,380     |
| Thereafter             | 1,085,291     |
|                        | \$ 14,350,874 |

**Note 10 - Related Party Transactions and Concentrations**

**Corn Marketing and Purchases**

GLE has a corn marketing agreement with the Cooperative. The Board of Directors of the Cooperative voted to have its members deliver 74,285,600 and 74,221,260 bushels of corn (0.40 per share), for the years ended August 31, 2011 and 2010, respectively, on an open delivery system. For those bushels not delivered by the members of the Cooperative, GLE obtains those bushels through a corn pool operated by GLE and charges a pool fee of \$0.01 per bushel.

**Glacial Lakes Corn Processors**  
 Notes to Consolidated Financial Statements  
 August 31, 2010 and 2009

---

For the years ended August 31, 2010 and 2009 the Cooperative purchased corn from its members (including committed bushels described above) as follows:

|             | Bushels    | Dollars        |
|-------------|------------|----------------|
| 2010        |            |                |
| Individuals | 13,043,207 | \$ 41,317,725  |
| Elevators   | 39,720,036 | 125,896,950    |
|             | 52,763,243 | \$ 167,214,675 |
| 2009        |            |                |
| Individuals | 8,853,489  | \$ 35,810,291  |
| Elevators   | 40,388,584 | 149,908,018    |
|             | 49,242,073 | \$ 185,718,309 |

Included in the amounts paid to the members of the Cooperative for the purchase of corn for the years ended August 31, 2010 and 2009, the Cooperative paid \$981,211, and \$547,146, respectively, as freight allowance on committed bushels and \$37,035 and \$39,025, respectively, as additional price to those members who purchased over 50,000 shares of stock at the time the Cooperative was organized (called "Commercial Level Investors").

**Distiller's Grain Sales**

For the years ended August 31, 2010 and 2009, the Cooperative sold distiller's grain to members of the Cooperative as follows:

|                       | Tons   | Dollars      |
|-----------------------|--------|--------------|
| 2010                  |        |              |
| Dry distiller's grain | 11,045 | \$ 1,101,466 |
| Wet distiller's grain | 80,400 | 3,519,813    |
|                       | 91,445 | \$ 4,621,279 |
| 2009                  |        |              |
| Dry distiller's grain | 13,462 | \$ 1,584,085 |
| Wet distiller's grain | 69,610 | 3,774,385    |
|                       | 83,072 | \$ 5,358,470 |

**Receivables and payables**

As of August 31, 2010 and 2009, amounts receivable from or due to members of the Cooperative were as follows:

|  | 2010       | 2009       |
|--|------------|------------|
| Receivables for distiller's grains       | \$ 351,837 | \$ 377,134 |
| Receivables for net pool fees            | 600,000    | 600,000    |
| Payables for corn and freight allowances | 4,076,281  | 3,585,063  |
| Prepaid unit retain payable              | 11,133,189 | -          |

**Major Customers**

During the years ended August 31, 2010 and 2009, the Cooperative had major customers from which the product sales and receivables were as follows:

|            | Product Sales<br>Year Ended August 31, |               | Accounts Receivable<br>August 31, |            |
|------------|--|---------------|-----------------------------------|------------|
|            | 2010                                   | 2009          | 2010                              | 2009       |
| Aventine   | \$ -                                   | \$ 98,274,988 | \$ -                              | \$ 959,777 |
| Eco Energy | 281,704,009                            | 183,058,323   | -                                 | 8,607,827  |

**Note 11 - Defined Contribution Plan**

The Cooperative has established a 401(k) plan for its employees. Eligible employees are able to contribute amounts (subject to IRS limits) and the Cooperative will match 50% of the employee's contribution, up to a maximum of 3% of the employees' salary. The amounts contributed by the Cooperative are subject to a 5-year vesting schedule. Forfeitures of unvested amounts are returned to the Cooperative. During the years ended August 31, 2010 and 2009, the Cooperative contributed (net of forfeitures) \$107,105 and \$97,398, respectively, to the 401(k) plan.

**Note 12 - Commitments and Contingencies**

**Environmental**

Substantially all of the Cooperative's facilities are subject to federal, state, and local regulations relating to the discharge of materials into the environment. Compliance with these provisions has not had, nor does management expect to have, any material effect upon operations. Management believes that the current practices and procedures for the control and disposition of such byproducts will substantially comply with the applicable federal and state requirements.

## Other Litigation and Claims

### *Aventine Claims*

On January 8, 2009, the Cooperative entered into Termination Agreements with their national marketer, Aventine, to terminate the marketing agreements with GLE and AE and all rights and obligations of the parties under the marketing agreements, effective January 16, 2009, other than the ethanol payment and pricing provisions of the marketing agreements, which survived the termination with respect to ethanol sold to Aventine and shipped prior to the effective termination date. Under the Termination Agreements, as of August 31, 2009, the Cooperative had recorded a combined receivable of \$959,777 (related to the true-up of sales of ethanol to Aventine from January 2009) and combined payable of \$1,100,000 (related to unpaid termination fees) with Aventine. As of August 31, 2010, the Cooperative has recorded a combined receivable of \$965,876 and a combined payable of \$1,184,188. Management believes that the payment of the unpaid termination fees and railcar subleases may be subject to various defenses, including rights of offset and recoupment.

The Termination Agreements also provided that Aventine would sublease to the Cooperative, and the Cooperative would accept such subleases from Aventine, certain railcars listed on exhibits to the Termination Agreements totaling approximately 673 tanker cars. On April 7, 2009, Aventine filed for relief under Chapter 11 of the United States Bankruptcy Code. On May 5, 2009, the United States Bankruptcy Court granted Aventine's motion to reject and entered an Order rejecting certain contracts including the master railcar leases between Aventine and various railcar companies for the tanker cars that the Cooperative had subleased from Aventine under the Termination Agreements. Following May 5, 2009, the Cooperative entered into new leases for a majority of the railcars it had subleased from Aventine. In the event that Aventine asserts any claims against the Cooperative under the Termination Agreements with respect to such railcars, management will defend vigorously against such claims or actions by Aventine.

The Statement of Financial Affairs filed by Aventine as part of a debtor's schedules lists payments to creditors within 90 days prior to the filing of the bankruptcy petition in the following amounts involving the Cooperative (a) GLE - \$9,725,083, and (b) AE - \$11,132,862. These were payments received by GLE and AE for ethanol sold to Aventine and shipped from the Cooperative's facilities. Under the Bankruptcy Code, a debtor or trustee may under certain circumstances void or recover payments made to creditors within 90 days prior to the filing of the bankruptcy petition. The Bankruptcy Code provides and recognizes various defenses to such actions, including but not limited to the payments were made in the ordinary course of business, and the creditor provided new value. In the event that Aventine asserts any claims to recover any payments made to GLE or AE within 90 days prior to the filing of the bankruptcy petition for ethanol shipped, management will defend vigorously against any such claims or actions by Aventine.

### ***IRS Examination***

In April, 2008, the IRS began an examination of the Cooperative's consolidated Federal income tax returns for the years ended August 31, 2005 and 2006. The IRS initially issued an examination report dated June 30, 2009 that proposed to disallow 39% of the patronage dividend deduction for fiscal year 2005 and 14% of the patronage dividend deduction for fiscal year 2006. The Cooperative protested the proposed adjustments in their entirety and requested the matter be sent to IRS Appeals Office by protest dated July 24, 2009. The IRS issued a revised examination report on September 16, 2009 with a different rationale for disallowance, but with no change in the proposed adjustment amounts. The Cooperative protested the revised examination report in its entirety on October 15, 2009, and the case was forwarded to the IRS Appeals Office in November, 2009. At issue is whether a portion of the Cooperative's taxable income following the buyout of the minority interest in GLE in 2004 (39% of fiscal year 2005 taxable income and 14% of fiscal year 2006 taxable income) should be reclassified as non-patronage income and therefore not eligible for a patronage dividend deduction and taxable to the Cooperative, to the extent that patronage corn delivery commitments were not increased to correspond with the Cooperative's increased ownership in GLE. Alternatively, at issue is whether the patronage dividend deduction should be disallowed with respect to such portion of the Cooperative's fiscal year 2005 and 2006 taxable income, even if such income was properly classified as patronage sourced income. The Cooperative intends to defend vigorously against the proposed adjustment to its patronage dividend deductions. The pending IRS adjustments in the IRS examination, if ultimately sustained, would result in an additional tax liability of \$603,495 for fiscal year 2005 and \$1,506,079 for fiscal year 2006, with interest thereon from the date of the tax returns to the date of ultimate payment. The first appeals conference with the IRS Appeals Office was held on October 26, 2010, but no resolution of the issue was reached. A second appeals conference was scheduled for January 25, 2011.

### ***Employment Claims***

In October 2008, the Cooperative was served a summons and complaint by the Cooperative's former chief executive officer. The complaint alleges breach of his employment agreement and seeks unspecified damages, including but not limited to the terms of the employment agreement. The complaint has been submitted to the Cooperative's insurance carrier for employment practices liability coverage and the insurance carrier has paid for the defense costs in this matter; however, determination as to whether there is insurance coverage is still pending. The Cooperative entered into mediation with the former chief executive officer on October 26, 2010. On November 12, 2010, a settlement agreement was reached, subject to a seven day rescission period. The Cooperative has recorded the liability and expense associated with the settlement agreement as of August 31, 2010, which remains unpaid as of the financial statement date.

### ***Ethanol Marketing***

The Cooperative currently has marketing agreements with two national marketers; one to sell its production of ethanol from GLE, and the other to sell its production of ethanol from AE. The Cooperative will pay a commission based on the net selling price. The contracts are for a one-year period (effective June 18, 2010 for GLE and May 26, 2010 for AE) and will automatically renew for successive one-year periods unless either party gives three-months notice to terminate at the end of the annual term.

### **Distiller's Grain Marketing**

The Cooperative has an agreement with a national distiller's grain marketer to sell its production of distiller's grain to the marketer and pay a commission based on the net selling price. This agreement shall remain in effect until terminated by either party by providing the other party not less than 90 days written notice of its election to terminate the agreement. The agreement allows the Cooperative to sell distiller's grain shipped by truck while the national marketer sells distiller's grain shipped by railcars.

In addition to the agreement referenced above, AE also has an agreement with a local feed manufacturing and marketing company to promote and market its production of distiller's grain and syrup and pay a fixed commission. The agreement shall remain in effect until August 31, 2012 or until terminated by either party providing the other party not less than 180 days written notice of its election to terminate the agreement.

### **Natural Gas Supply**

The Cooperative currently has natural gas supply agreements in place with a national supplier for its production requirements. The agreements expire June 30, 2012 for GLE and August 2011 for AE.

### **Forward Purchase and Sales Contracts**

As of August 31, 2010, the Cooperative has entered into forward contracts to purchase 6,500,495 bushels of corn of which 411,006 bushels are basis-only contracts. The average contract price of fully-priced bushels is \$3.55 per bushel primarily for delivery by December 31, 2010. As of August 31, 2010 and 2009, the Cooperative reflected an accrued loss on these future commitments of \$0 and \$1,220,000, respectively, which is reflected through costs of goods sold.

As of August 31, 2010, the Cooperative has entered into forward contracts to purchase 1,480,000 gallons of denaturant through December 2010 with prices indexed to the OPIS – Conway In-Well monthly average. In addition, the Cooperative has entered into forward contracts to purchase 5,280,000 MMBtu of natural gas through August 2011 with prices indexed to the IFERC – NNG/Ventura monthly average.

As of August 31, 2010, the Cooperative has entered into commitments with national marketers for the sale of 25,085,000 gallons of ethanol at an estimated average net price of \$1.66.

As of August 31, 2010, the Cooperative has entered into contracts for the sale of approximately 55,186 tons of DDG's of which 4,962 tons are basis-only contracts. Fully priced contracts average \$125 per ton primarily for delivery by June 2011. The Cooperative has also entered into contracts for the sale of approximately 50,422 tons of WDG of which 2,692 tons are basis-only contracts. Fully priced contracts average \$43 per ton primarily for delivery by May 2011.

**Note 13 - Investments in Unconsolidated Affiliates**

The Cooperative had the following investments in other renewable fuel businesses at August 31, 2010 and 2009, respectively:

|                           | 2010          | 2009          |
|---------------------------|---------------|---------------|
| Granite Falls Energy, LLC | \$ 7,801,215  | \$ 7,655,971  |
| Redfield Energy, LLC      | 3,043,113     | 2,581,428     |
|                           | \$ 10,844,328 | \$ 10,237,399 |

**Investment in Granite Falls Energy, LLC**

At August 31, 2010 and 2009, the Cooperative owned 4,525 units (14.76%) of GFE. GFE operates a 50 million gallon fuel ethanol plant near Granite Falls, Minnesota.

As of August 31, 2010 and 2009, the Cooperative's recorded investment in Granite Falls exceeded its ownership interest percentage in the equity of the affiliate by \$175,165 and \$209,068, respectively. The excess arose from the purchase of units in the affiliate at amounts greater than the book value of the affiliate, primarily related to accumulated deficits of the affiliate prior to beginning production. The excess is being amortized over a ten year period.

For the years ended August 31, 2010 and 2009, the Cooperative recognized equity in net income (loss) of the affiliate of \$823,994 and \$(1,042,860), and received cash distributions of \$678,750, and \$0, respectively.

In December 2008, the Cooperative entered into an agreement with Fagen, Inc. to sell 2,000 of the 6,525 membership units owned of GFE. As consideration for the sale, the Cooperative received \$1,000 per unit for an aggregated price of \$2,000,000. The Cooperative retained the right to complete a sale of its entire membership interest, including the units sold to Fagen, Inc., to a third party within seven months. In July 2009 the agreement was extended. In August, 2009, the Cooperative closed on the sale of shares to Fagen, Inc. Based upon the carrying amount of the investment in GFE, a loss of \$1,500,402 was recognized on the sale in 2009.

The Cooperative's equity in the net income (loss) of Granite Falls Energy, LLC is based upon estimated earnings of the affiliate as of August 31 of each year. Summary financial information for Granite Falls Energy, LLC as of July 31, 2010 and October 31, 2009 (its fiscal year) and for the nine months ended July 31, 2010 and years ended October 31, 2009 and 2008 is as follows:

**Condensed Balance Sheets**

|                                       | July 31, 2010<br>(Unaudited) | October 31, 2009 |
|---------------------------------------|------------------------------|------------------|
| Current Assets                        | \$ 17,782,008                | \$ 14,015,271    |
| Property and Equipment, Net           | 37,396,570                   | 42,425,018       |
| Other Assets, Net                     | 20,520                       | 32,894           |
| Total assets                          | \$ 55,199,098                | \$ 56,473,183    |
| Current Liabilities                   | \$ 3,278,262                 | \$ 4,004,077     |
| Long-Term Debt                        | 255,824                      | 370,136          |
| Members' Equity                       | 51,665,012                   | 52,098,970       |
| Total liabilities and members' equity | \$ 55,199,098                | \$ 56,473,183    |

**Condensed Statements of Operations**

|                                    | Nine Months<br>Ended<br>July 31, 2010<br>(Unaudited) | Year Ended<br>October 31, 2009 | Year Ended<br>October 31, 2008 |
|------------------------------------|--|--------------------------------|--------------------------------|
| Revenues                           | \$ 69,294,943  | \$ 91,282,031                  | \$ 99,393,373                  |
| Cost of Goods Sold                 | (63,831,087)   | (87,464,936)                   | (104,343,467)                  |
| Gross profit (loss)                | 5,463,856  | 3,817,095                      | (4,950,094)                    |
| Operating Expenses                 | (1,439,101)  | (2,045,615)                    | (2,916,170)                    |
| Other Income (Expense), Net        | 149,530  | (603,149)                      | 327,885                        |
| Interest Expense                   | (9,843)  | (82,151)                       | (139,880)                      |
| Net Income (Loss)                  | \$ 4,164,442   | \$ 1,086,180                   | \$ (7,678,259)                 |
| Weighted Average Units Outstanding | 30,656   | 30,781                         | 31,156                         |
| Net Income (Loss) per Unit         | \$ 136   | \$ 35                          | \$ (246)                       |

**Investment in Redfield Energy, LLC**

At August 31, 2010 and 2009, the Cooperative owned 1,660,526 units (8.13%) of Redfield Energy, LLC ("RE"). RE operates a 50 million gallon fuel ethanol plant near Redfield, South Dakota.

Prior to August 2009, the Cooperative performed services for RE under a management agreement. In August 2009, the Cooperative and RE mutually agreed to terminate the management agreement.



Included in the total units of RE owned by the Cooperative are 1,010,526 units received as part of the consulting and management agreement, representing 5% of the outstanding units after the close of the offering in February 2006. These units receive a pro rata allocation of the ongoing earnings and distributions of RE, however, under the terms of RE's operating agreement, no amount was initially credited to the Cooperative's capital account at RE for these units, effectively reducing the Cooperative's equity in the net assets of RE from what would otherwise be expected. However, these units have a distribution preference of up to \$2,021,052 in any gain recognized by RE upon liquidation as long as other members receive a minimum liquidating distribution of \$2.00 per unit.

As of August 31, 2010 and 2009, the Cooperative's recorded investment in RE was less than its estimated underlying equity in the net assets of the affiliate by \$122,684 and \$141,086, respectively. The difference is being amortized into earnings over a ten year period.

For the years ended August 31, 2010 and 2009 the Cooperative recognized equity in net income (loss) of RE of \$461,685 and (\$1,028,240) and received cash distributions of \$0 and \$0, respectively.

The Cooperative's equity in the net income (loss) of RE is based upon estimated earnings of the affiliate as of August 31 of each year. Summary financial information for RE as of August 31, 2010 and 2009 and for the years August 31, 2010 and 2009 is as follows:

**Condensed Balance Sheets**

|                                       | 2010<br>(Unaudited) | 2009          |
|---------------------------------------|---------------------|---------------|
| Current Assets                        | \$ 19,879,763       | \$ 11,831,054 |
| Property and Equipment, Net           | 51,332,970          | 57,829,723    |
| Other Assets, Net                     | 279,618             | 259,682       |
| Total assets                          | \$ 71,492,351       | \$ 69,920,459 |
| Current Liabilities                   | \$ 5,067,304        | \$ 5,593,815  |
| Long-Term Debt                        | 24,444,194          | 27,693,854    |
| Members' Equity                       | 41,980,853          | 36,632,790    |
| Total liabilities and members' equity | \$ 71,492,351       | \$ 69,920,459 |

**Condensed Statements of Operations**

|                             | <u>2010</u><br><u>(Unaudited)</u> | <u>2009</u>            |
|-----------------------------|-----------------------------------|------------------------|
| Revenues                    | \$ 109,078,143                    | \$ 105,636,993         |
| Cost of Goods Sold          | <u>(99,839,673)</u>               | <u>(113,747,973)</u>   |
| Gross profit (loss)         | 9,238,470                         | (8,110,980)            |
| Operating Expenses          | (2,162,648)                       | (2,168,274)            |
| Other Income (Expense), Net | 614,263                           | 79,813                 |
| Interest Expense            | <u>(2,342,022)</u>                | <u>(2,594,236)</u>     |
| Net Income (Loss)           | <u>\$ 5,348,063</u>               | <u>\$ (12,793,677)</u> |

**Note 14 - Income Taxes**

The provision for income taxes (benefits) charged to income for the years ended August 31, 2010 and 2009 consists of the following:

|                            | <u>2010</u>       | <u>2009</u>           |
|----------------------------|-------------------|-----------------------|
| Current expense (benefit)  | \$ 34,623         | \$ (655,255)          |
| Deferred expense (benefit) | <u>438,871</u>    | <u>(407,074)</u>      |
|                            | <u>\$ 473,494</u> | <u>\$ (1,062,329)</u> |

Deferred taxes are comprised of basis differences related to non-patronage earnings from the Cooperative's investments in GFE and RE. Since the Cooperative allocates its patronage earnings on the tax basis of accounting, deferred income taxes have not been recognized on the temporary differences associated with its patronage earnings. The most significant differences between book and tax earnings are depreciation and recognition of gains and losses associated with derivative financial instruments.

Deferred tax assets and liabilities as of August 31, 2010 and 2009 are as follows:

|  | <u>2010</u>           | <u>2009</u>           |
|--|-----------------------|-----------------------|
| Deferred tax asset:                            |                       |                       |
| Small ethanol producer tax credit carryforward | \$ 430,877            | \$ 546,871            |
| Deferred tax liability:                        |                       |                       |
| Investment in GFE and RE                       | <u>(2,471,577)</u>    | <u>(2,149,297)</u>    |
| Net deferred tax liability                     | <u>\$ (2,040,700)</u> | <u>\$ (1,602,426)</u> |

The small ethanol producer tax credit carryforward expires in 2014.

As of August 31, 2010, the Cooperative has the following net patronage loss carryforward for income tax purposes:

|   |                               |
|---|-------------------------------|
| Patronage earnings for year ended August 31, 2010   | \$ 18,756,790                 |
| Patronage loss for the year ended August 31, 2009   | (88,772,735)                  |
| Allocation of a portion of the patronage loss for the<br>year ended August 31, 2009 to members                | 16,699,784                    |
| Patronage loss for the year ended August 31, 2008   | (32,785,532)                  |
| Allocation of patronage earnings to members in excess<br>of patronage earnings for year ended August 31, 2007 | <u>(28,059)</u>               |
| Net patronage loss carryforward   | <u><u>\$ (86,129,752)</u></u> |

Patronage losses for tax purposes can be carried forward for 20 years to be used to offset patronage income in future years.

The Cooperative files income tax returns in the U.S. federal jurisdiction and in the state of Minnesota. The Cooperative is no longer subject to U.S federal and state examination by tax authorities for years ending on or before August 31, 2004. See Note 12 related to the IRS examination for the years ended August 31, 2005 and 2006.

## **Note 15 - Stock-Based Compensation**

### **Stock Incentive Plan**

On November 21, 2006, the Cooperative’s Board approved the 2007 Employee Stock Incentive Plan (“Stock Plan”) to attract and retain employees, directors, and service providers of the Cooperative by aligning financial interests of these individuals with the members of the Cooperative.

The aggregate number of shares that may be issued under the Stock Plan is 3,500,000. The awards under the Stock Plan (defined as “Stock Incentives”) can be in the form of stock options, restricted stock awards, restricted stock units, stock appreciation rights, performance stock, performance units or other awards as determined by Board of the Cooperative. Under the Stock Plan (a) no more than 3,500,000 shares may be used for stock options, (b) no more than 500,000 shares may be used for stock incentives for directors and (c) no more than 1,750,000 shares may be used for stock incentives other than stock options or stock appreciation rights.

The Cooperative granted a total of 360,000 shares of stock and 1,842,500 restricted stock units to senior and mid-level management during the year ended August 31, 2007. No new grants were issued in subsequent years. Each stock unit entitles the holder to one share of stock issuable when the stock unit vests. The restricted stock units generally vest over five years as long as the employees are employed by the Cooperative, with the vesting date being September 1 of each year. The fair value of the stock and restricted stock units at the date of grant was estimated based upon recent stock transactions between unrelated entities. The Cooperative generally uses newly issued shares to satisfy share awards.

The Cooperative applied an annual estimated forfeiture rate of 22% when calculating the number of shares expected to vest, based upon the Cooperative's historical experience, for the awards to participants.

The total stock-based compensation expense recognized by the Cooperative under the Stock Plan during the fiscal years ending August 31, 2010 and 2009 was \$329,797, and \$383,130, respectively.

Stock unit activity for the year ended August 31, 2010 is as follows:

|  | Number of<br>Stock Units | Weighted<br>Average<br>Exercise Price<br>per Share | Weighted<br>Average<br>Remaining<br>Contractual<br>Term (in Years) | Aggregate<br>Intrinsic<br>Value |
|--|--------------------------|--|--|---------------------------------|
| Outstanding<br>on August 31, 2009                | 435,000                  | \$ -   |  |                                 |
| Granted  | -                        |  |  |                                 |
| Exercised  | (190,000)                |  |  |                                 |
| Forfeited and expired                            | (25,000)                 |  |  |                                 |
|  | <u>220,000</u>           | <u>\$ -</u>  | <u>1.35</u>  | <u>\$ 77,000</u>                |
| Outstanding<br>on August 31, 2011                | 220,000                  | \$ -   | 1.35   | \$ 77,000                       |
| Vested or expected to vest<br>at August 31, 2010 | <u>207,900</u>           | <u>\$ -</u>  | <u>1.35</u>  | <u>\$ 72,765</u>                |

The weighted-average grant-date fair value of units granted during the year ended August 31, 2007 was \$1.84 per unit. The total intrinsic value of options exercised during the year ended August 31, 2010 was \$77,000. As of August 31, 2010, there was \$74,000 of unrecognized compensation expense related to these nonvested stock units. This amount is expected to be recognized as compensation expense over a weighted average period of 1.35 years.

## Note 16 - Stockholders' Equity

### General

The Cooperative is an agricultural association whereby members must meet established membership criteria, hold a minimum of 2,500 shares of common stock, pay the required membership fee and enter into a uniform delivery and marketing agreement.

The common stock of the Cooperative is the membership stock of the Cooperative and entitles each member to one vote in the affairs of the Cooperative regardless of the number of common shares owned. No ordinary dividends can be paid on the common stock. According to the articles of incorporation, the Cooperative may issue preferred stock. Preferred stock of the Cooperative is non-voting with allowable dividends paid on preferred stock not to exceed 8% annually of the par value of the preferred stock. Any such dividends on the preferred stock are not cumulative.

### Liquidation or Dissolution

In the event of a liquidation or dissolution of the Cooperative, net assets remaining after the liabilities of the Cooperative are settled will be distributed first to the holders of preferred stock up to an amount equal to the consideration given, second to the holders of the common stock, and any nonvoting certificate of interest into which the common stock was converted, up to an amount equal to the consideration given plus, in the case of holders of certain shares of common stock, a Share Revaluation Preference, third to the members holding patron equities in the order from oldest to most recent and finally to the existing members on the basis of their past patronage, fourth to patrons in accordance with their credited interest in capital reserves, and any remaining assets in proportion to patrons in proportion to their patronage since the most recent issuance of capital stock in which a Share Revaluation Preference was created. The purpose of the Share Revaluation Preference is to equalize the liquidating distribution entitlements associated with outstanding shares with those associated with newly issued shares, notwithstanding that they were issued at different times and at different prices. This will equalize the entitlements of the pre-2006 shares with the newly issued shares. However, the tax treatment on liquidation will be considerably different because the Share Revaluation Preference on the pre-2006 shares will be taxed as patronage dividends to the holders of those shares, to the extent the Cooperative recognizes gain on sale of assets and such gain constitutes patronage sourced gain, and assuming that the Cooperative remains taxable as a cooperative. The newly issued shares, on the other hand, will have their tax basis to offset against their distribution.

### Earnings (Loss) per Share

A reconciliation of net income (loss) from continuing operations and common stock share amounts used in the calculation of basic and diluted earnings per share (EPS) for the years ended August 31 are as follows:

|                                | Net Income (Loss)<br>from Continuing<br>Operations | Weighted<br>Average<br>Shares<br>Outstanding | Per Share<br>Amount |
|--------------------------------|--|--|---------------------|
| 2010                           |  |  |                     |
| Basic EPS                      | \$ 34,864,467                                      | 185,687,319                                  | \$ 0.188            |
| Effects of dilutive securities |  |  |                     |
| Exercise of stock units        | -  | -  | -                   |
|                                | <u>\$ 34,864,467</u>                               | <u>185,687,319</u>                           | <u>\$ 0.188</u>     |
| 2009                           |  |  |                     |
| Basic EPS                      | \$ (83,764,392)                                    | 186,631,592                                  | \$ (0.449)          |
| Effects of dilutive securities |  |  |                     |
| Exercise of stock units        | -  | -  | -                   |
|                                | <u>\$ (83,764,392)</u>                             | <u>186,631,592</u>                           | <u>\$ (0.449)</u>   |

Stock options for 220,000 and 435,000 shares for 2010 and 2009, respectively, were not included in the calculation of diluted EPS because their effects would be anti-dilutive.

### Prepaid Non-Qualified Unit Retain

In October 2008, the Cooperative approved and authorized an additional direct capital investment into Glacial Lakes Corn Processors from a retain on a per unit basis equal to \$0.06 per share of common stock to be paid to Glacial Lakes Corn Processors from its members. The Cooperative designated the unit retain as a non-qualified per unit retain, and established the non-qualified per unit retain as a prepaid unit retain, due and payable immediately. The unit retain ranks in priority ahead of fiscal year 2006 allocated capital reserve, but behind common stock and related additional paid in capital.

On January 28, 2009, the Cooperative terminated the membership relating to 2,807,500 shares on which the unit retain was not paid. These shares were converted to nonvoting certificates of interest at the \$1,262,166 face amount equal to the value of the consideration for which the common stock had originally been issued. The nonvoting certificates of interest are non-transferable. The Cooperative has no obligation to redeem such nonvoting certificates of interest and the members' right and obligation to deliver corn under the delivery agreement was terminated. Further, the nonvoting certificates of interest do not participate in future dividends from GLCP.

On August 31, 2010, the Cooperative declared and accrued distributions of \$11,133,189 to repay the prepaid non-qualified unit retain.

### Note 17 - Discontinued Operations

In October 2008, the Cooperative entered into an agreement to sell Madison Energy (ME) to Cargill Incorporated. The sale included certain real property, together with improvements comprising Madison Energy's 1,200,000 bushel grain elevator facility. Also included in the sale were machinery and equipment as well as inventory and open contracts. In consideration, Cargill agreed to pay ME \$4,500,000 and an amount equal to the grain inventory and open contracts. The Company recorded a gain on the transaction of \$1,595,653, which is included in income (loss) from discontinued operations in the consolidated statement of operations for the year ended August 31, 2009. There is no tax effect of discontinued operations.

The Cooperative acquired the assets of ME from Cenex Harvest States in December 2006 for a purchase price of \$8,422,000. The transaction provided the Cooperative with an additional corn procurement and storage facility. Selected financial information included in income from discontinued operations for ME for the years ended August 31, 2010 and 2009, is as follows:

|   | 2010 | 2009         |
|---|------|--------------|
| Grain sales   | \$ - | \$ 3,454,129 |
| Cost of goods sold  | -    | 2,825,276    |
| Gross profit  | \$ - | \$ 628,853   |
| Income from discontinued operations<br>before impairment losses | \$ - | \$ 650,926   |
| Gain on sale of discontinued operations                         | -    | 1,595,653    |
| Income from discontinued operations                             | \$ - | \$ 2,246,579 |

**Note 18 - Significant Market Events**

As a result of a downturn in the commodities markets and resulting negative gross margins, the Cooperative incurred significant hedging losses from September, 2008 until April, 2009. Losses on futures and option contracts were approximately \$45,000,000 in September and October, 2008.

**Note 19 - Subsequent Events**

On November 12, 2010, a settlement was reached related to the litigation with the former chief executive officer. This litigation is discussed at Note 12.

The Cooperative has evaluated subsequent events through November 15, 2010, the date which the financial statements were available to be issued.

Supplementary Information  
August 31, 2010 and 2009

## Glacial Lakes Corn Processors





CPAs & BUSINESS ADVISORS

## **Independent Auditor's Report on Supplementary Information**

The Board of Directors  
Glacial Lakes Corn Processors  
Watertown, South Dakota

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The following supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the audit procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

*Eide Bailly LLP*

Minneapolis, Minnesota  
November 15, 2010

Glacial Lakes Corn Processors  
Consolidating Balance Sheet  
Year Ended August 31, 2010

|  | Glacial Lakes<br>Corn Processors | Glacial Lakes<br>Energy, LLC | Aberdeen<br>Energy, LLC | Missouri Valley<br>Energy, LLC | Total                 | Eliminations            | Consolidated          |
|--|----------------------------------|------------------------------|-------------------------|--------------------------------|-----------------------|-------------------------|-----------------------|
| <b>Assets</b>                                |                                  |                              |                         |                                |                       |                         |                       |
| <b>Current Assets</b>                        |                                  |                              |                         |                                |                       |                         |                       |
| Cash and cash equivalents                    | \$ 502,007                       | \$ 25,789,408                | \$ 16,385,990           | \$ -                           | \$ 42,677,405         | \$ -                    | \$ 42,677,405         |
| Restricted cash                              | -                                | -                            | 8,320                   | -                              | 8,320                 | -                       | 8,320                 |
| Receivables                                  | 11,133,189                       | 7,388,611                    | 11,519,997              | -                              | 30,041,797            | (11,133,189)            | 18,908,608            |
| Inventories                                  | -                                | 8,615,372                    | 7,202,931               | -                              | 15,818,303            | -                       | 15,818,303            |
| Margin deposits                              | -                                | 1,145,263                    | 854,973                 | -                              | 2,000,236             | -                       | 2,000,236             |
| Prepaid expenses                             | -                                | 943,148                      | 795,401                 | -                              | 1,738,549             | -                       | 1,738,549             |
| Total current assets                         | <u>11,635,196</u>                | <u>43,881,802</u>            | <u>36,767,612</u>       | <u>-</u>                       | <u>92,284,610</u>     | <u>(11,133,189)</u>     | <u>81,151,421</u>     |
| Investments                                  | 120,533,576                      | 10,844,328                   | -                       | -                              | 131,377,904           | (120,533,576)           | 10,844,328            |
| Debt Issuance Costs, Net                     | -                                | 538,199                      | 619,128                 | -                              | 1,157,327             | -                       | 1,157,327             |
| Other Assets                                 | -                                | 15,000                       | -                       | -                              | 15,000                | -                       | 15,000                |
| Property and Equipment, Net                  | -                                | 75,730,737                   | 119,672,227             | 1,392,000                      | 196,794,964           | -                       | 196,794,964           |
|  | <u>\$ 132,168,772</u>            | <u>\$ 131,010,066</u>        | <u>\$ 157,058,967</u>   | <u>\$ 1,392,000</u>            | <u>\$ 421,629,805</u> | <u>\$ (131,666,765)</u> | <u>\$ 289,963,040</u> |
| <b>Liabilities and Stockholders' Equity</b>  |                                  |                              |                         |                                |                       |                         |                       |
| <b>Current Liabilities</b>                   |                                  |                              |                         |                                |                       |                         |                       |
| Current maturities of long-term debt         | \$ -                             | \$ 8,412,969                 | \$ 9,295,010            | \$ -                           | \$ 17,707,979         | \$ -                    | \$ 17,707,979         |
| Current maturities of interest rate swaps    | -                                | 217,849                      | 272,310                 | -                              | 490,159               | -                       | 490,159               |
| Derivative financial instrument              | -                                | 563,288                      | 387,513                 | -                              | 950,801               | -                       | 950,801               |
| Accounts payable                             | 457,550                          | 6,827,039                    | 1,769,893               | -                              | 9,054,482             | -                       | 9,054,482             |
| Prepaid unit retain payable                  | 11,133,189                       | 8,349,892                    | 2,783,297               | -                              | 22,266,378            | (11,133,189)            | 11,133,189            |
| Accrued expenses                             | -                                | 2,794,635                    | 2,305,693               | -                              | 5,100,328             | -                       | 5,100,328             |
| Total current liabilities                    | <u>11,590,739</u>                | <u>27,165,672</u>            | <u>16,813,716</u>       | <u>-</u>                       | <u>55,570,127</u>     | <u>(11,133,189)</u>     | <u>44,436,938</u>     |
| <b>Long-Term Liabilities</b>                 |                                  |                              |                         |                                |                       |                         |                       |
| Long-term debt, less current maturities      | -                                | 49,023,045                   | 67,601,325              | -                              | 116,624,370           | -                       | 116,624,370           |
| Interest rate swaps, less current maturities | -                                | 3,849,325                    | 4,813,255               | -                              | 8,662,580             | -                       | 8,662,580             |
| Deferred income taxes                        | 2,040,700                        | -                            | -                       | -                              | 2,040,700             | -                       | 2,040,700             |
| Other  | -                                | 435,011                      | 451,909                 | -                              | 886,920               | -                       | 886,920               |
| Total long-term liabilities                  | <u>2,040,700</u>                 | <u>53,307,381</u>            | <u>72,866,489</u>       | <u>-</u>                       | <u>128,214,570</u>    | <u>-</u>                | <u>128,214,570</u>    |
| Total liabilities                            | <u>13,631,439</u>                | <u>80,473,053</u>            | <u>89,680,205</u>       | <u>-</u>                       | <u>183,784,697</u>    | <u>(11,133,189)</u>     | <u>172,651,508</u>    |
| Stockholders' Equity                         | 118,537,333                      | 50,537,013                   | 67,378,762              | 1,392,000                      | 237,845,108           | (120,533,576)           | 117,311,532           |
|  | <u>\$ 132,168,772</u>            | <u>\$ 131,010,066</u>        | <u>\$ 157,058,967</u>   | <u>\$ 1,392,000</u>            | <u>\$ 421,629,805</u> | <u>\$ (131,666,765)</u> | <u>\$ 289,963,040</u> |

Glacial Lakes Corn Processors  
Consolidating Statement of Operations  
Year Ended August 31, 2010

|  | Glacial Lakes<br>Corn Processors | Glacial Lakes<br>Energy, LLC | Aberdeen<br>Energy, LLC | Missouri Valley<br>Energy, LLC | Total                | Eliminations           | Consolidated         |
|--|----------------------------------|------------------------------|-------------------------|--------------------------------|----------------------|------------------------|----------------------|
| Revenue  |                                  |                              |                         |                                |                      |                        |                      |
| Product sales  | \$ -                             | \$ 195,226,630               | \$ 196,586,090          | \$ -                           | \$ 391,812,720       | \$ -                   | \$ 391,812,720       |
| Service revenue  | -                                | 121,513                      | -                       | -                              | 121,513              | -                      | 121,513              |
| Government incentive revenue                           | -                                | 674,010                      | -                       | -                              | 674,010              | -                      | 674,010              |
| Total revenue  | <u>-</u>                         | <u>196,022,153</u>           | <u>196,586,090</u>      | <u>-</u>                       | <u>392,608,243</u>   | <u>-</u>               | <u>392,608,243</u>   |
| Cost of Goods Sold                                     | <u>-</u>                         | <u>167,949,439</u>           | <u>173,150,090</u>      | <u>-</u>                       | <u>341,099,529</u>   | <u>-</u>               | <u>341,099,529</u>   |
| Gross Profit   | -                                | 28,072,714                   | 23,436,000              | -                              | 51,508,714           | -                      | 51,508,714           |
| General and Administrative Expenses                    | <u>640</u>                       | <u>3,668,894</u>             | <u>3,063,927</u>        | <u>-</u>                       | <u>6,733,461</u>     | <u>-</u>               | <u>6,733,461</u>     |
| Operating Loss   | <u>(640)</u>                     | <u>24,403,820</u>            | <u>20,372,073</u>       | <u>-</u>                       | <u>44,775,253</u>    | <u>-</u>               | <u>44,775,253</u>    |
| Other Income (Expense)                                 |                                  |                              |                         |                                |                      |                        |                      |
| Interest expense                                       | -                                | (4,664,596)                  | (6,190,530)             | -                              | (10,855,126)         | -                      | (10,855,126)         |
| Interest income  | 5,704                            | 29,001                       | 60,007                  | -                              | 94,712               | -                      | 94,712               |
| Equity in earnings of unconsolidated affiliates        | -                                | 1,285,679                    | -                       | -                              | 1,285,679            | -                      | 1,285,679            |
| Equity in earnings (loss) of consolidated subsidiaries | 36,552,947                       | -                            | -                       | -                              | 36,552,947           | (36,552,947)           | -                    |
| Other income, net                                      | 5,750                            | 180                          | 31,513                  | -                              | 37,443               | -                      | 37,443               |
| Total other income (expense)                           | <u>36,564,401</u>                | <u>(3,349,736)</u>           | <u>(6,099,010)</u>      | <u>-</u>                       | <u>27,115,655</u>    | <u>(36,552,947)</u>    | <u>(9,437,292)</u>   |
| Income (Loss) Before Income Taxes                      | 36,563,761                       | 21,054,084                   | 14,273,063              | -                              | 71,890,908           | (36,552,947)           | 35,337,961           |
| Income tax expense                                     | <u>(473,494)</u>                 | <u>-</u>                     | <u>-</u>                | <u>-</u>                       | <u>(473,494)</u>     | <u>-</u>               | <u>(473,494)</u>     |
| Net Income (Loss)                                      | <u>\$ 36,090,267</u>             | <u>\$ 21,054,084</u>         | <u>\$ 14,273,063</u>    | <u>\$ -</u>                    | <u>\$ 71,417,414</u> | <u>\$ (36,552,947)</u> | <u>\$ 34,864,467</u> |